

Multifamily Tax Exemption Program

Frequently Asked Questions – Property Owners and Managers

When do the affordable units need to be leased to income-eligible households?

All rental projects must comply with the affordability requirements identified in the MFTE agreement between the City of Seattle and the property owner for the duration of the exemption period, beginning at the issuance of the Final Certificate for Tax Exemption and culminating at the end of the twelfth full calendar year in which the property receives the tax exemption.

When does the property tax exemption go into effect?

The property tax exemption begins on January 1 of the first complete calendar year following the City's issuance of the Final Certificate of Tax Exemption to the King County Assessor.

Do the same units need to remain the affordable units throughout the duration of the tax exemption?

No. As long as the proportion of affordable units, both in aggregate and by unit type, remains consistent with that in the application for final certificate of tax exemption, then the particular units that are made affordable can change.

How do property managers verify whether prospective tenants are income-eligible?

- In general, the Office of Housing recommends using procedures consistent with those established by the [Washington State Housing Finance Commission](#). The WSHFC rules differ from rules governing MFTE in one significant respect: households comprised wholly of full-time students are permitted to reside in MFTE units.
- As for documentation, the WSHFC's [Employment Verification](#) form is one of the more useful forms, as it encompasses most "traditional" forms of employment. Third-party confirmation of income is generally the preferred method for confirming income qualification, although in certain instances supplementary materials such as pay stubs, tax forms, or an offer letter may be sufficient for verifying a prospective tenant's income eligibility. In the event that pay stubs are used, be sure to assemble a sufficient number of pay periods sufficient to demonstrate the frequency of pay. The prospective tenant is also required to disclose any expected bonuses or other lump-sum earnings. Please note that a credit report alone does not suffice to document income.
- Also, the WSHFC produces several supplementary income qualification forms that are tailored to a variety of potential employment situations, including but not limited to salary work, hourly work, self-employment, and seasonal work.

- Most forms of income should be counted, inclusive of but not limited to child support, military benefits, and unemployment benefits. Two important exceptions: Scholarship income specific to tuition assistance and Section 8 housing vouchers can be excluded. Again, the WSHFC's rules provide an excellent guideline.
- Assets are not considered income; however, any earnings associated with assets should be included (e.g., rent from a separate real estate holding). Consistent with procedures established by the WSHFC, interest of 2% should be included as annual income for any cash holdings in excess of \$5,000. Under this circumstance, you should obtain two months of bank statements.
- Any income in the form of a gift (including payment of rent by a third party) must be disclosed and included in the income calculation. When gifts are received, the WSHFC's gift affidavit must appear in the tenant file.

Is there an income minimum?

Landlords can determine their own minimum income requirements. However, any tenant file that reveals an implausibly low income (i.e., insufficient to cover the MFTE rent and basic living expenses) implies the presence of supplementary undisclosed income and will be questioned during any audit of tenant files.

How frequently must property managers verify the income of income-eligible tenants after they have moved in?

Under SMC 5.73, the income eligibility of tenants in MFTE units must be verified only once, at the point at which the initial lease begins. There are two exceptions to this general rule:

- If an MFTE tenants wishes to move from one MFTE unit into another one that happens to require a lower income than the original unit (e.g., from a 1-bedroom to a studio), the tenant must re-submit income verification materials to ensure their income meets the more stringent requirement.
- Any change in the permanent household composition within an MFTE unit (e.g., addition or removal of a permanent occupant of the unit) triggers income requalification.

When is the annual report due?

Each project's first annual report is due within 30 days of the one-year anniversary of the date the project's Final MFTE Certificate was signed. Each subsequent annual report is due by October 31 every year, reflecting a reporting period of October 1 of the previous year through September 30 of the current year.

What are the annual reporting requirements?

MFTE properties are required to complete a spreadsheet in MS Excel, which is supplied by the Office of Housing, which includes unit identification, unit type, unit size, renters' names, household size, monthly rent, utility allowance, maximum rent, household income, and maximum allowable household income for all income- and rent-restricted units. For market-rate units, the Office of Housing requests unit identification, unit type, unit size, and rent.

What happens after a property has submitted the MFTE annual report?

The Office of Housing reviews annual reports and conducts periodic site visits, which include a review of tenant files. The Office of Housing review process confirms whether the proper number and type of units have been set aside as affordable, and that the incomes and rents of renters meet affordability requirements. Properties will be notified in writing of their compliance status. In cases of possible non-compliance, properties must either demonstrate their compliance or, if determined to be non-compliant, take corrective action, which typically will involve designating alternative affordable unit(s) to meet program requirements. In the event that the property fails to take acceptable corrective action, OH will notify the building owner of a case of non-compliance and pursue remediation consistent with the terms of the recorded MFTE agreement.

Is it possible to opt out of the MFTE program early? If so, how?

Yes, properties can opt out of the program at any time, as long as they follow these guidelines:

- Notifying both the Director of the Office of Housing and the King County Assessor no less than 60 days prior to the change from affordable to market-rate units;
- Assuming responsibility for any additional taxes, interest, and penalty imposed pursuant to State law.

Which fees can property owners charge to tenants leasing affordable MFTE units?

The MFTE program defines “affordable rent” at 30% of the median income, assuming a maximum of 65% of the median income for studios, 75% of the median income for one-bedroom units, and 85% of the median income for two-bedroom and larger units. The maximum affordable rent figure is inclusive of utility costs, which currently allow \$100 per month for studios and one-bedroom units, and \$140 per month for two-bedroom and larger units (though in 2014, these amounts will increase by \$10 to remain consistent with the Seattle Housing Authority’s recently updated utility allowance policy).

Many rental property owners charge additional fees above and beyond tenants’ base rent and utilities, some being optional for the tenants, and others being mandated for residence. Typical optional fees would include pets and parking fees. Typical required fees would include renter’s insurance, when obtaining such insurance is a prerequisite for signing a lease. When a tenant is required to pay a fee in order to either establish or maintain residence in an MFTE unit, the amount of that fee must be deducted from the tenant’s total rent.

For example, if a property owner requires the tenant to obtain a renter’s insurance policy, which costs the tenant \$50 per month, then \$50 must be deducted from the tenant’s base rent so that the total rental cost remains less than the limit.

Can the property owner charge tenants a premium for month-to-month leases?

Property owners can charge no more than the mandated MFTE maximum rents and utility costs, which is inclusive of any premium that a property owner may charge its tenants in month-to-month leases. For instance, as per the current rent maximums, the most a property owner could charge a tenant (in either a month-to-

month lease or a longer-term lease) would be \$1,004 for studios restricted at 65% AMI, \$1,323 for one-bedroom units restricted at 75% AMI, and \$1,687 for two-bedroom and larger units restricted at 85% AMI.

For purposes of determining MFTE income and rent limits, how are open/urban/junior 1-BR units classified, as studios or as 1-BR units?

There is some flexibility in determining this. If the alternative 1-BR units are more similar in size, layout, and potential market rate to “traditional” 1-BR units, then they should be classified as 1-BRs. However, if those alternative 1-BR units are more similar in those ways to studio units, then they should be treated as studios.

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